



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

The Accounting Officer  
Greater Tubatse Municipality  
P.O. Box 206  
Burgersfort  
1150

30 November 2012

Reference: 60062REG11/12

Dear Sir

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Greater Tubatse Municipality for the year ended 30 June 2012.**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA, you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in

the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



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## REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE GREATER TUBATSE MUNICIPALITY

### REPORT ON THE FINANCIAL STATEMENTS

#### Introduction

1. I have audited the financial statements of the Greater Tubatse Local Municipality set out on pages ... to ..., which comprise statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information, and the accounting officer's report.

#### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)(MFMA), Division of Revenue Act of South Africa, 2011 (Act No. 06 of 2011) (DoRA) and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

#### Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2001) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### Basis for qualified opinion

#### Property, plant and equipment

6. A significant number of assets identified from the floor could not be traced to the accounting records and financial statements. The municipality did not have adequate systems in place for the identification and recording of assets and there were no alternative audit procedures that I could perform to obtain reasonable assurance that all assets were properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of assets amounting to R808 636 774, as disclosed in note 3 to the financial statements
7. Due to inadequate asset management processes and controls at the municipality, I was unable to physically verify a significant number of assets included in the balance of R808 636 774 as disclosed in note 3 to the financial statements. I was unable to confirm the existence of these assets by alternative means. Consequently I was unable to determine whether any adjustments relating to property, plant and equipment in the financial statements was necessary.
8. The accumulated depreciation on assets amounting to R95 167 159 disclosed in note 3 to the financial statements differs with my recalculation of R111 007 317, resulting in a difference of R15 840 158. Consequently, depreciation is understated by R15 840 158 and due to the matters reported on in the preceding paragraphs I could not determine the impact of the carrying value of property, plant and equipment in the financial statements
9. The municipality did not assess assets for impairment in accordance by SA Standards of GRAP 21, *Impairment of Non-cash-generating Assets*. The municipality's records did not permit the application of alternative audit procedures. Consequently I was unable to determine whether any adjustments relating to property, plant and equipment in the financial statements was necessary as it was impractical to do so.
10. The municipality did not disclose the nature and effect of a change in an accounting estimate in accordance with SA Standards of GRAP 3, *Property, Plant and Equipment*. The municipality had adjusted the useful life of assets worth R9 762 061 and the change in estimate was not disclosed in a note to the financial statements as per requirements of SA Standards of GRAP.
11. The transitional provisions for SA Standards of GRAP 17, *Property, Plant and Equipment*, contained in directive 4, transitional provisions for medium and low capacity municipalities, states that during the measurement period, the entity shall retrospectively adjust the provisional amounts recognised to reflect the information obtained about the facts and circumstances that existed on the effective date of the standard. The municipality has unbundled its infrastructure assets amounting to R384 499 342 as disclosed in note 3 to the prior financial statements in accordance with the requirements of the above standard, however, the municipality had not made a retrospective adjustment as required by directive 4. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation and allocation of property, plant and equipment of R 717 109 076 and accumulated surpluses.

### **Contingent liabilities**

12. As per note 32 to the annual financial statements, the municipality has disclosed R 3 700 000 as contingent liabilities. In addition to this, it has been established that the municipality is involved in additional litigation claims with service providers to an amount of R11 053 253 and this amount has not been included in the above disclosure. This results in the understatement of contingent liabilities by the above amount. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, of contingent liabilities as per SA Standards of GRAP 19, *Provisions, Contingent Liabilities and Contingent Accounting Policies*,

### **Qualified opinion**

13. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Greater Tubatse municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA.

### **Emphasis of matters**

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited supplementary schedules**

15. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

### **Irregular expenditure**

16. As disclosed in note 38 to the financial statements, the municipality incurred irregular expenditure of R23 987 993 due to payments made in contravention of the supply chain management requirements.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

17. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

18. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages XX to XX of the annual report.
19. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether

indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information (FMPPI)*.

20. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

21. The material findings are as follows:

#### **Usefulness of information**

##### **Presentation**

##### **Measures taken to improve performance not disclosed**

22. Section 46 of the Municipal Systems Act, 2000 (Act No 32 of 2000)(MSA) requires the disclosure of measures taken to improve performance in the annual performance report where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 91% measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity, accuracy, completeness of the measures taken to improve performance.

##### **Consistency**

##### **Reported objectives not consistent with planned objectives**

23. The MSA section 41(c) requires that the service delivery agreement should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 28% of the reported objectives are not consistent with the objectives as per the approved service delivery agreement. This was due to a lack of review of and monitoring by management.

##### **Measurability**

##### **Performance indicators not well defined**

24. The National Treasury *FMPPI* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 100% of the indicators relevant to all the objectives selected were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. Although management was aware of the requirements of the *FMPPI* no training was provided to the relevant officials to enable application of the principles.

##### **Reliability of information**

##### **Validity of reported performance**

25. The National Treasury *FMPPI* requires that the indicator be valid enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 100% of institutional development and transformation, basic services delivery, local economic development and spatial rationale. This was due to limitations placed on the scope of my work by the municipality's records not permitting the application of alternative audit procedures.

### **Accuracy of reported performance**

26. The National Treasury FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy, of the actual reported performance relevant to 100% of Institutional development and transformation, basic services delivery, local economic development and spatial rationale. This was due to limitations placed on the scope of my work by the municipality's records not permitting the application of alternative audit procedures

### **Completeness of reported performance**

27. The National Treasury FMPPI requires that the indicator be complete enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of the actual reported performance relevant to 100% of institutional development and transformation, basic services delivery, local economic development and spatial rationale. This was due to limitations placed on the scope of my work by the municipality's records not permitting the application of alternative audit procedures.

### **Compliance with laws and regulations**

28. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

### **Annual financial statements, performance and annual report**

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.

### **Procurement and contract management**

30. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
31. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
32. The preference point system was not applied in the procurement of goods and services above R30 000 as per the requirements of Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000)(PPPFA) section 2(a) and SCM regulation 28(1)(a)(ii)
33. The preference point system was not applied in the procurement of goods and services above R30 000 as per the requirements of PPPFA section 2(a) and SCM regulation 28(1)(a)(ii)

### **Expenditure management**

34. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
35. The accounting officer did not take reasonable steps to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

36. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA

#### **Revenue management**

37. Rental contracts were not renewed as required by section 33 of MFMA.
38. All revenue received by the municipality, including revenue received by any collecting agent on its behalf, were not reconciled on a weekly basis as required by section 64(2)(h) of the MFMA
39. The accounting officer did not take effective and appropriate steps to timeously collect all money due to the municipality as per the requirements of section 97(b) of the MFMA.
40. An adequate management, accounting and information system was not in place which accounted for debtors, as required by section 64(2)(e) of the MFMA.

#### **Asset management**

41. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
42. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

#### **Internal control**

43. I considered internal control relevant to my audit of the financial statements, predetermined objectives and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the predetermined objectives and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

44. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls
45. The accounting officer did not implement effective HR management processes to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored
46. The accounting officer did not establish an IT governance framework that supports and enables the business, delivers value and improves performance.

#### **Financial and performance management**

47. The chief financial officer (CFO) did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
48. The CFO did not implement adequate controls over daily and monthly processing and reconciling of transactions
49. The CFO did not prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information

**Governance**

50. The risk management strategy implemented by the municipality was not effective to prevent a recurring qualification on the municipality's movable assets.
51. The audit committee did not review the financial statements adequately to ensure that they are accurate and complete.



Auditor-General  
Polokwane

30 November 2012



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